

Department of Social and Health Services

DP Code/Title: M2-FE Increased Cost for EBT

Program Level - 060 Economic Services Admin

Budget Period: 2003-05 Version: 11 2003-05 Agency Request Budget

Recommendation Summary Text:

The United States Department of Agriculture (USDA) has mandated that food benefits be given to clients via an Electronic Benefits Transfer (EBT) card. The Economic Services Administration (ESA) currently has a contract to provide EBT services. The current rates under this contract will increase in October 2003. This package requests additional funding due to this increased Cost Per Case Month (CPCM).

Fiscal Detail:

Operating Expenditures

	<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Program 060			
001-1 General Fund - Basic Account-State	488,000	678,000	1,166,000
001-2 General Fund - Basic Account-Federal	305,000	424,000	729,000
001-D General Fund - Basic Account-TANF (DSHS)	109,000	152,000	261,000
Total Cost	902,000	1,254,000	2,156,000

Staffing

Package Description:

Federal law mandates that food benefits be given to clients via an EBT card by October 1, 2003. Washington State implemented its EBT system in November 1999, and has added most cash benefits to this same card. When the EBT contract was signed, the CPCM prices were fixed in accordance with the Best and Final Offer (BAFO). Washington State was given the option of reducing these CPCM rates for a designated time frame by choosing an offset pricing option whereby the Department of Social and Health Services (DSHS) paid the contractor, Citicorp Electronic Financial Services (CEFS), at the beginning of the contract for technical deliverables and reduced the CPCM by \$.49 for the first 9,250,000 case months. Then the rates would go back up to the BAFO prices resulting from the bid. By paying this amount at the start of the contract, ESA saved approximately \$400,000 over the life of the contract.

The current rates are \$.95 for food only, \$.72 for cash only, and \$1.62 for combined food and cash. ESA estimates that the 9,250,000 case months will be reached in October 2003. At that time, the CPCM converts to the original rates. The current budgeted amount of \$3,281,000 per year reflects the discounted rates and will need to be increased in order to pay the increase cost per case month as agreed in the contract. The new rate is estimated to begin October 2003 and will require an additional \$902,222 in Fiscal Year 2004 and \$1,253,645 in Fiscal Year 2005. These rates are comparable to what other states are paying.

Narrative Justification and Impact Statement

How contributes to strategic plan:

This decision package supports the department's goals of maintaining a safety net for people in need by delivering cash and food benefits to eligible clients quickly and accurately.

Performance Measure Detail

Program: 060

Goal: 02F Maintain safety net for people in need.

No measures submitted for package

Incremental Changes

FY 1

FY 2

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Reason for change:

As part of the current contract for EBT, ESA was given the option and subsequently chose to pay for deliverables that resulted in a discounted CPCM rate for the first 9,250,000 case months. ESA will reach that number of case months in October 2003, at which time the CPCM will increase by \$.49. If the contractor is not paid the agreed CPCM, Washington State will default on the contract, resulting in breach of contract and termination of services.

Impact on clients and services:

As of May 2002, there were 121,586 clients receiving food benefits only, 12,560 receiving cash benefits only, and 53,130 receiving combined benefits through EBT cards for a monthly total cost of \$211,198. Caseload estimates indicate that by June 2003, there will be 172,489 clients receiving food benefits only, 13,000 receiving cash benefits only, and 53,574 receiving combined food and cash benefits through EBT for a total monthly cost of \$260,746. Funding this decision package ensures clients will continue to receive their benefits without interruption.

Impact on other state programs:

Clients from Aging and Adult Services Administration and the Division of Alcohol and Substance Abuse receive food benefits through this system. This funding would allow for uninterrupted service to clients.

Relationship to capital budget:

Not applicable

Required changes to existing RCW, WAC, contract, or plan:

Not applicable

Alternatives explored by agency:

DSHS could revert to warrants for cash and food coupons for food assistance, so clients continue receiving services. However, this would be a direct violation of federal statute, which states that food coupons must be phased out by October 1, 2002, and that states fully convert to an EBT system. The federal Food and Nutrition Service (FNS) has stated that states not in compliance could face a federal disallowance of 100 percent of their administrative costs. For Washington State, this could be as much as \$27 million per year. In addition, FNS would not reimburse states for any costs related to reverting to food coupons.

Another alternative, if reviewed and approved by the Information Services Board, is to move to the new Request for Proposal contractor submitted by the Western State EBT Alliance, of which Washington State is a member. The alliance has just completed this RFP for EBT services and received three bidders. CEFS won the contract with CPCM rates of food benefits \$1.92, cash only \$1.29, and combined of \$2.68 (These may rise or fall depending on the total number of clients from the Alliance). Washington State has the option of moving to the new contract at the end of Fiscal Year 2003 or extending the existing contract for two additional one-year periods. The table below lists the CPCM rates and shows that the rates would be higher under the new contract than the current CPCM without the offset discount.

CPCM	FOOD	CASH	COMBINED
Current Contract	.953	.720	1.624
New Contract (BAFO 2) *	1.920	1.290	2.680
Current Contract Without Offset	1.443	1.210	2.114

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* Assumes that the combined caseload for the WSEA states is between 525,001 and 550,000 cases.

EBT is mandated by USDA and is considered a best practice for providing food benefits to eligible clients.

Budget impacts in future biennia:

Washington will have reached the end of the allowed two one-year extension periods by May 2005. At that time, the new contract will have to be negotiated and signed. This will result in higher rates than currently being requested.

Distinction between one-time and ongoing costs:

All costs are ongoing.

Effects of non-funding:

EBT is federally mandated. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 mandated that each state agency implement EBT for issuance of food stamp benefits no later than October 1, 2002. Washington fully implemented this requirement by November 1999. Forty-five states, the District of Columbia, and Puerto Rico have online EBT systems. If we do not get funding for the continuation of the EBT system, the result could be disallowance of 100 percent of the administrative costs incurred by the state. Additionally, Washington State would become the only state not to fund the continuation of their EBT system.

If funding were not made available for this rate increase, CEFS could decide to terminate their current EBT contract due to breach of contract resulting from inadequate funding. This would place clients in jeopardy of an interruption in their food and cash benefits. Retailers and financial institutions could protest modifications in the current process. State staff could have an increased workload explaining the changes to clients. ACES would have to be modified to provide warrants and local offices would have to find ways to store secure negotiable instruments (food coupons).

Expenditure Calculations and Assumptions:

See attachment - ESA M2-FE Increased Cost for EBT.xls

<u>Object Detail</u>	<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Program 060 Objects			
E Goods And Services	902,000	1,254,000	2,156,000

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DSHS Source Code Detail

Program 060		<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Fund 001-1, General Fund - Basic Account-State				
<u>Sources</u>	<u>Title</u>			
0011	General Fund State	379,000	526,000	905,000
GFS2	General Fund State TANF Moe	109,000	152,000	261,000
<i>Total for Fund 001-1</i>		488,000	678,000	1,166,000
Fund 001-2, General Fund - Basic Account-Federal				
<u>Sources</u>	<u>Title</u>			
566B	Refugee & Entrant Assist-St Admin'd Prog(D)(100%)	2,000	3,000	5,000
E61L	Food Stamp Program (50%)	303,000	421,000	724,000
<i>Total for Fund 001-2</i>		305,000	424,000	729,000
Fund 001-D, General Fund - Basic Account-TANF (DSHS)				
<u>Sources</u>	<u>Title</u>			
558B	Temp Assist for Needy Families (TANF) (100%)	109,000	152,000	261,000
<i>Total for Fund 001-D</i>		109,000	152,000	261,000
Total Program 060		902,000	1,254,000	2,156,000